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INFO SOUTHERN AFRICA DEVELOPMENT COMMUNITY

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SUBJECT: EFFECTS OF WORLD ECONOMIC DOWNTURN ON SWAZILAND'S INSULATED FINANCIAL MARKETS, EXPOSED EXPORT MARKET

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¶1. SUMMARY. Swaziland's financial market, fairly insulated from the global banking crisis, has kept banks that operate in Swaziland safe. Swaziland's small domestic market makes it heavily dependent on sugar exports and exports to the South African market. This vulnerability to commodities pricing has not severely affected Swazi businesses so far. The textile industry, already volatile and dependent on AGOA access, favorable exchange rates, and U.S. export orders, has laid off over 2000 workers. END OF SUMMARY.

MANUFACTURING

¶2. The textile industry has lost 2100 jobs since the beginning of the year. In February, a local newspaper reported that one garment company alone planned to lay off 800 workers. The industry employs approximately 17,000 Swazis, with an average wage of 95 USD (E950.00) per month.

¶3. Swazican, a major exporter, reports net export volumes remain in line with expectations. Swazican's parent company, Rhodes Food Group, has seen basic commodity foods such as canned vegetables, jams and canned fruits pick up in demand with the onset of the global recession, as consumers "trade down" from other "luxury" food items.

¶4. Sugar products, Swaziland's main export, have slightly increased. Swaziland Sugar Association (SSA) believes rand/dollar depreciation; Swaziland's ability to fill quota shortfalls of other African, Caribbean, Pacific sugar producers; and sugar product diversification have led to the increase in sales. Another factor keeping the industry buoyant is structural adjustments made in 2006 to address the declining EU preferential sugar prices.

¶5. The Swaziland Federation of Trade Unions reports that 120 employees of Maloma, the only mine operating in Swaziland, lost their jobs since the beginning of the year. The Federation of Swaziland Employers and Chambers of Commerce (FSE&CC) reports only one of their members closed in 2008.

THE SOUTH AFRICA EFFECT

¶6. According to the Central Bank, Swaziland sends over 50 percent of its exports to South Africa, but conventional thought has the number at 80 percent. The most current trade data available is for 2007, but anecdotal evidence indicates Swaziland exports to South Africa are stable at this time. A decline in South African imports is Swaziland's most serious economic challenge; projections are that a decline is inevitable, due to worldwide economic pressures, but projections regarding the degree of decline are speculative. South African imports account for most of South African Customs Union (SACU) revenue (some experts claim as much as 80 percent), and SACU revenue represents 66 percent of total GOKS revenue. As noted in reftel (b), the anticipated decline in SACU revenue has resulted in a 2009-10 projected budget deficit for the Government of the Kingdom of Swaziland.

¶7. Remittances by Swazis in South Africa represent 4.2 percent of GDP (43.2 million USD), with the average annual remittance totaling 480 USD. A 2008 UN study shows 62 percent of Swazi migrant workers

work in the South Africa mining industry, totaling approximately 7000 Swazis. Therefore, lay-offs in South African mines produce relatively minor residual effects in Swaziland. An Employment Bureau of Africa recruitment agent says no Swazi miners have been laid off, but he is expecting some retrenchment in the next month or so. The last recruitment for mine workers was in June 2008.

INFLATION

¶8. Inflation, currently 11.8 percent, down from an average of 12.6 in 2008, is on track to fulfill analysts' expectations for a lower inflation rate than 2008.

¶9. The FSE&CC reports that most exporting companies are witnessing a decline in global orders, and anticipate increased pressure in the form of wage negotiations. In the short term, they believe price volatilities, unemployment, and wage bill pressures will be significant factors for local businesses, as most companies are expecting rigorous wage negotiations by mid-year.

TRANSPORTATION

¶10. Swaziland Railways' freight revenues are fluctuating, with decreasing revenues in July and an increase in November, only to decline in December. Swaziland Railways attributes the drop in revenues to a number of factors: delay in signing the European Partnership Agreement delayed the shipping of sugar; forest fires delayed and decreased the shipping of timber; and a decline in garment exports. February revenues have shown signs of improvement.

AGOA

¶11. Swazi exports to the U.S. have declined by 64 million USD since ¶2005. Garments exports, Swaziland's biggest export to the U.S., increased slightly between 2007 and 2008, but overall exports declined by eight percent in the same time period. It is estimated that export trade to the U.S. accounts for approximately two percent of Swazi exports.

SURVIVING THE CRUNCH

¶12. Unless there are major political changes, Swaziland's location, size, and underdeveloped private sector will continue to be the dominant factors in determining Swaziland's economic future. The global financial crunch has yet to fully exacerbate this weakness. Simultaneous long-term stagnation in South Africa, resulting in a decreased market for Swazi exports and decreased Southern Africa Customs Union receipts, and large declines in European Union export orders will be flashpoints for a severe Swazi economic downturn.

PARKER